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INFO OCT-01 EA-10 ISO-00 EURE-00 INRE-00 SSO-00 NSCE-00

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 2810

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DEPARTMENT PASS TREASURY AND FRB; (OPERATIONS CENTER

PLEASE ALERT WORREL, EXT. 22622)

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TAGS: ECON, UK

SUBJECT: UK GOVERNMENT WHITE PAPER "THE ATTACK ON
INFLATION"

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SUMMARY: THE WHITEPAPER OUTLINING THE GOVERNMENT'S
POLICY FOR REDUCING THE RATE OF UK INFLATION THROUGH CON-

TROLLING WAGE INCREASES WAS DELIVERED TO COMMONS TODAY BY PRIME MINISTER WILSON. THE GOVERNMENT'S OBJECTIVE IS TO REDUCE THE RATE OF INFLATION TO 10 PERCENT BY THIRD QUARTER 1976 AND TO SINGLE FIGURES BY THE END OF 1976. TO ATTAIN THIS GOAL, THE GOVERNMENT, THE TUC AND THE CBI AGREED ON THE TUC'S PROPOSAL FOR A UNIVERSAL PAY LIMIT OF 6 POUNDS PER WEEK FOR THOSE WITH INCOMES BELOW 8500 POUNDS PER YEAR, NO INCREASE FOR THOSE WITH INCOMES ABOVE THIS LIMIT; NO GRANT SUPPORT TO LOCAL AUTHORITIES FOR ANY PART OF A WAGE SETTLEMENT WHICH EXCEEDS THE PAY LIMIT; CONTROL OF LOCAL AUTHORITY BORROWING AND REDUCE THEIR CAPITAL PROGRAMS IF NECESSARY TO OFFSET ANY EXCESS EXPENDITURE ON PAY SETTLEMENTS; NATIONALIZED INDUSTRIES WILL NOT RECEIVE ADDITIONAL FUNDS TO FINANCE PAY SETTLEMENTS IN EXCESS OF THE LIMIT EITHER FROM ADDITIONAL SUBSIDIES, ADDITIONAL BORROWING OR INCREASED PRICES OR CHARGES; PRIVATE SECTOR FIRMS APPLYING TO PRICE COMMISSION FOR A PRICE INCREASE MUST SUPPLY ANY UNDERLYING DETAILS OF PAY SETTLEMENTS (CURRENTLY 80 PERCENT OF WAGE INCREASE CAN BE PASSED ON IN PRICES), IF SETTLEMENT EXCEEDS THE LIMIT, NO PRICE INCREASE WILL BE ALLOWED. THIS WILL ALSO APPLY TO PUBLIC ENTERPRISES AS WELL; THE GOVERNMENT WILL ASK FOR LEGISLATION, IF THE VOLUNTARY LIMITS ARE EXCEEDED, WHICH WOULD PLACE SANCTION ON EMPLOYERS FOR EXCEEDING THE PAY LIMIT; NO PRICE FREEZE BUT REQUEST EXTENSION OF THE PRICE CODE BEYOND ITS CURRENT EXPIRATION DATE OF MARCH 1976; REQUEST EXTENSION OF POWER TO LIMIT DIVIDENDS TO 10 PERCENT BEYOND MARCH 1976; AND FIRM CONTROL OVER THE GROWTH OF THE MONEY SUPPLY. INITIAL PARLIAMENTARY RESPONSE TO PRIME MINISTER'S SPEECH INTRODUCING WHITE PAPER WAS FAVORABLE, THOUGH CONSERVATIVES RESERVED THEIR POSITION PENDING FURTHER STUDY OF DOCUMENT ITSELF. END SUMMARY

1. THE FOLLOWING ARE EXTRACTS FROM THE U.K. GOVERNMENT'S WHITE PAPER "THE ATTACK ON INFLATION" WHICH WAS PRESENTED IN PARLIAMENT FRIDAY, JULY 11:

--- THERE CAN BE NO SOLUTION TO THE PROBLEM OF INFLATION WHICH RELIES ON THE CREATION OF MASS UNEMPLOYMENT
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AND UNDERUTILIZATION OF OUR PRODUCTIVE EQUIPMENT ... THE DIRECT AND SENSIBLE SOLUTION IS TO REDUCE OUR RATE OF INCREASES IN WAGES AND SALARIES. THE GOVERNMENT, THE TUC AND CBI ARE AGREED THAT THIS RATE SHOULD BE BROUGHT DOWN TO A LEVEL WHICH WILL ENSURE THAT BY THE LATE SUMMER OF NEXT YEAR, THE YEAR-ON-YEAR INCREASE IN PRICES WILL BE NO MORE THAN 10 PERCENT, AND THAT BY THE END OF NEXT YEAR IT WILL BE DOWN TO SINGLE FIGURES.

--- THE GOVERNMENT INTEND TO MAINTAIN POLICIES WHICH, OVER A NUMBER OF YEARS, WILL CONTROL DOMESTIC IN-

FATION AND PREVENT ANYRESURGENCE OFTHE PRESENT RATES OF
PRICE INCREASES ... THE GOVERNMENT ARE SUPPORTING THE
TUC'S PROPOSAL FOR A UNIVERSAL PAY LIMIT OF 6 POUNDS PER
WEEK.
- --- THE SACRIFICES CALLED FOR WILL NOT BE EASY: ...

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FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 2811
INFO AMEMBASSY BERN
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AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
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BUT THE ALTERNATIVE IS MUCH WORSE. A CONTINUATION OF PRESENT RATE OF INFLATION WOULD GREATLY INCREASE UNEMPLOYMENT, THREATEN US WITH EXTERNAL BANKRUPTCY, AND GRAVELY DAMAGE THE SOCIAL AND ECONOMIC FABRIC OF THE NATION.

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--- TO ACHIEVE (10 PERCENT INFLATION RATE BY THIRD QUARTER 1976 AND SINGLE FIGURES BY END 1976) WITHIN THE FRAMEWORK OF THE DEVELOPMENT OF THE SOCIAL CONTRACT, THE TUC HAVE AGREED THAT THERE SHOULD BE A LIMIT OF 6 POUNDS PER WEEK ON PAY INCREASES --- THE SIX POUNDS IS, HOWEVER, A MAXIMUM WITHIN WHICH NEGOTIATIONS WILL TAKE PLACE --- THE GOVERNMENT CONSIDER THAT THE UPPER LIMIT FOR THE 6 POUND INCREASE SHOULD BE 8,500 POUNDS A YEAR (THE TUC RECOMMENDED 7,000 POUNDS).

--- (TO AVOID INEQUITIES AND EASE TRANSITION, THE GOVERNMENT) ACCEPTS THAT WAGE COUNCIL PROPOSALS AND THE AWARDS OF FORMAL ARBITRATION REFERENCES MADE BEFORE THIS WHITE PAPER SHOULD BE IMPLEMENTED; AND THAT SETTLEMENTS MAY ALSO BE IMPLEMENTED FOR GROUPS WHICH, BEFORE THE DATE OF PUBLICATION OF THIS WHITE PAPER, HAVE REACHED AGREEMENTS FOR ANNUAL SETTLEMENT DATES NOT LATER THAN 1 SEPTEMBER, PROVIDED THAT THEY HAD NO PRINCIPAL INCREASE UNDER THE EXISTING TUC GUIDELINES WITHIN THE LAST 12 MONTHS.

--- INCREASES ON DIVIDENDS MUST BE LIMITED TO 10 PERCENT (EFFECTIVE JULY 1). THE POWERS NECESSARY TO ENFORCE THIS LIMIT ARE ALREADY AVAILABLE TO THE GOVERNMENT, BUT UNDER PRESENT LEGISLATION THEY EXPIRE ON 31 MARCH 1976 AND THE GOVERNMENT WILL IN DUE COURSE ASK PARLIAMENT TO EXTEND THEM.

--- THE RATE SUPPORT GRANT PAYABLE TO LOCAL AUTHORITIES WILL BE RESTRICTED SO THAT IF THEREIS ANY NATIONAL PAY SETTLEMENTS IN EXCESS OF THE LIMIT, NO GRANT WILL BE PAYABLE ON THE EXCESS.

--- USE (GOVERNMENTAL POWERS) OF CONTROL OVER LOCAL AUTHORITY BORROWING, INCLUDING ACCESS TO THE CAPITAL MARKET, TO REDUCE THE CAPITAL PROGRAMS OF PARTICULAR LOCAL AUTHORITIES IF THIS PROVES NECESSARY TO OFFSET ANY EXCESS EXPENDITURE ON PAY SETTLEMENTS.

--- THE GOVERNMENT WILL NOT FOOT THE BILL FOR EXCESSIVE SETTLEMENTS IN THE NATIONALIZED INDUSTRIES THROUGH SUBSIDIES, BY PERMITTING EXTRA BORROWING, OR BY ALLOWING EXCESS COST TO BE LOADED ON THE PUBLIC THROUGH INCREASED PRICES OR CHANGES ... ENSURE THAT NO ADDITIONAL FUNDS ARE MADE AVAILABLE TO THESE INDUSTRIES IN ORDER TO FINANCE PAY SETTLEMENTS OUTSIDE THE LIMIT ... PRICE CON-

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TROL SANCTIONS (BELOW) WILL APPLY TO EXCESSIVE PAY SET-TLEMENTS IN THE NATIONALIZED INDUSTRIES AS IN THE PRI-VATE SECTOR.

--- THE GOVERNMENT WILL NOT ALLOW FIRMS WHICH MAKE EXCESSIVE PAY SETTLEMENTS TO REFLECT THESE SETTLEMENTS IN HIGHER PRICES TO THE CONSUMER. WITH EVERY APPLICA-TION TO THE PRICE COMMISSION FOR A PRICE INCREASE, EM-PLOYERS WILL HAVE TO NOTIFY DETAILS OF ANY PAY SETTLE-MENT UNDERLYING THE APPLICATION ... WHERE AN EMPLOYER BREAKS THE PAY LIMIT, THE WHOLE PAY INCREASE WILL BE DIS-ALLOWED FOR PRICE INCREASES.

--- THE GOVERNMENT WILL NOT GIVE DISCRETIONARY ASSIS-TANCE UNDER THE INDUSTRY ACT TO COMPANIES WHICH HAVE BROKEN THE PAY LIMIT.

--- THE GOVERNMENT WILL ALSO TAKE ACCOUNT OF A FIRM'S RECORD OF OBSERVANCE OF THE PAY LIMIT IN ITS GENERAL PUR-CHASING POLICY AND IN THE AWARDING OF CONTRACTS.

--- SELF-EMPLOYED PEOPLE WHOSE EXPENSES AMOUNT TO LESS THAN 10 PERCENT OF TURNOVER ARE CURRENTLY EXEMPT FROM THE PRICE CODE. THEY WILL NOW BE BROUGHT BACK UN-DER THE CODE.

-- THE GOVERNMENT BELIEVES THAT THE MEASURES DE-SCRIBED ABOVE WILL BE ADEQUATE TO SECURE COMPLIANCE WITH POLICY BY ALL EMPLOYERS. IF, HOWEVER, THEY FIND THAT THE POLICY NEEDS TO BE ENFORCED BY APPLYING A LEGAL POWER OF COMPULSION THEY WILL NOT HESITATE TO DO THIS.

--- LEGISLATION HAS BEEN PREPARED WHICH, IF APPLIED IN PARTICULAR CASES, WOULD MAKE IT ILLEGAL FOR THE EM-PLOYER TO EXCEED THE PAY LIMIT. THE GOVERNMENT WILL ASK PARLIAMENT TO APPROVE THIS LEGISLATION FORTHWITH IF THE PAY LIMIT IS ENDANGERED WITH RESULTANT UNFAIRNESS TO THE GREAT MAJORITY OF THOSE WHO ARE PREPARED TO OBSERVE IT. (COMMENT: THIS CLAUSE MEANS THAT BILL TO IMPLEMENT WHITE PAPER WILL NOT CONTAIN THE STAND-BY SANCTIONS FOR VIOLA-TION OF PAY LIMITS -- LEGISLATION FOR SUCH SANCTIONS WILL BE INTRODUCED IF AND WHEN VOLUNTARY LIMITS ARE EXCEEDED.)

--- (THE GOVERNMENT) WOULD LIKE TO BE ABLE TO FREEZE PRICES BUT AN IMMEDIATE PRICE FREEZE IS SIMPLY NOT POS-

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 2812

INFO AMEMBASSY BERN

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SIBLE AFTER NEARLY 3 YEARS OF STRICT PRICE CONTROLS WITH-
OUT DEPRESSING INVESTMENT AND CAUSING ADDITIONAL UNEMPLOY-
MENT ... LEGISLATE IN DUE COURSE TO EXTEND THE CONTROL
(UNDER THE PRICE CODE) BEYOND 31 MARCH 1976.

--- ONCE IT IS CLEAR THAT THE PAY LIMIT IS BEING EF-

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FECTIVELY OBSERVED, THE GOVERNMENT INTEND TO INSURE THAT
THE RATE OF PRICE INCREASES FOR A RANGE OF GOODS WILL BE
HELD TO ABOUT 10 PERCENT.

--- PROPOSE TO SPEND 70 MILLION POUNDS MORE ON FOOD SUBSIDIES DURING 1976-77 THAN THE AMOUNT ENVISAGED IN THE APRIL BUDGET.

--- FOR 1976-77, THE GOVERNMENT PROPOSE TO LIMIT RENT INCREASES SO THAT RENTS DO NOT RISE FASTER THAN PRICES GENERALLY.

--- THE GOVERNMENT WILL INTRODUCE (A TEMPORARY EMPLOYMENT SUBSIDY TO HELP FIRMS LOCATED IN AREAS OF HIGH UNEMPLOYMENT WHICH FACE LARGE REDUNDANCIES) AS SOON AS POSSIBLE. THE SUBSIDY WILL NOT BE AVAILABLE TO COMPANIES WHO EXCEED THE PAY LIMIT.

--- CONTINUE TO USE THE FULL RANGE OF INSTRUMENTS AVAILABLE TO KEEP THE GROWTH OF THE MONEY SUPPLY UNDER FIRM CONTROL ... THROUGH BANK OF ENGLAND GUIDANCE, SEE THAT PRIORITY IN LENDING IS GIVEN TO THE ESSENTIAL SECTORS OF THE ECONOMY.

--- IF WE DO NOT, OVER THE NEXT 12 MONTHS, ACHIEVE A DRASIC REDUCTION IN THE PRESENT DISASTROUS RATE OF INFLATION BY THE MEASURES OUTLINED IN THIS DOCUMENT, THE BRITISH PEOPLE WILL BE ENGULFED IN A GENERAL ECONOMIC CATASTROPHE OF INCALCULABLE PROPORTIONS.

2. INITIAL PARLIAMENTARY REACTION TO PRIME MINISTER WILSON'S STATEMENT TO COMMONS INTRODUCING WHITE PAPER WAS SYMPATHETIC AND ENCOURAGING. WHILE CONSERVATIVE LEADER MARGARET THATCHER RESERVED HER PARTY'S POSITION PENDING STUDY OF WHITE PAPER AND SOUGHT TO GAIN SOME POLITICAL ADVANTAGE FROM WILSON, GENERAL THRUST OF TORY BACKBENCH STATEMENTS WAS FAVORABLE. AS EXPECTED, SOME CONSERVATIVES QUESTIONED WHETHER GOVERNMENT'S ANTI-INFLATION PROPOSALS GO FAR ENOUGH AND CRITICISED CERTAIN ASPECTS OF GOVERNMENT PLAN, BUT IT DOES NOT APPEAR AS THOUGH THESE OBJECTIONS WILL BE SUFFICIENT TO FORCE TORIES INTO ALL OUT OPPOSITION. LIBERAL LEADER JEREMY THORPE INDICATED HIS PARTY'S SUPPORT FOR WHITE PAPER. BULK OF PARLIAMENTARY LABOR PARTY (PLP) BACKBENCH INTERVENTIONS WERE STRONGLY SUPPORTIVE OF GOVERNMENT, WITH LEFT-WING FAR MORE SUBDUED THAN HAD BEEN ANTICIPATED. ONLY SOUR NOTE CAME FROM UNCLASSIFIED

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FORMER INDUSTRY MINISTER ERIC HEFFER WHO PROMISED TRIBUNE GROUP WOULD EXAMINE WHITE PAPER AND SUBSEQUENT LEGISLATION CAREFULLY TO ENSURE ITS DOCTRINAL ACCEPTABILITY. OTHER TRIBUNITES, HOWEVER, WERE MORE SYMPATHETIC. CLEARLY EARLIER TUC ENDORSEMENT OF GOVERNMENT APPROACH TO INFLATION PROBLEM HAD TAKEN WIND FROM LEFT-WING SAILS. ON THE BASIS OF REACTION THUS FAR, OUR PRELIMINARY ASSESSMENT (LONDON 10617) CONTINUES TO HOLD.

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